

Market Monitoring Report

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Two Key Issues

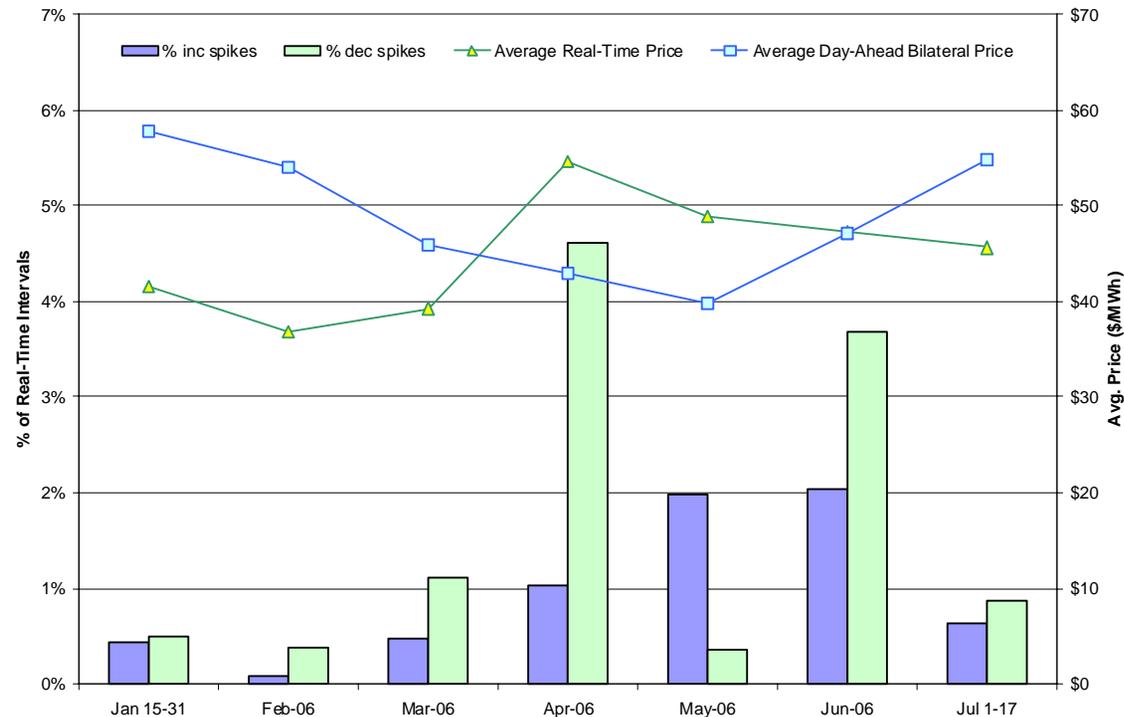
1. Assessment of Real Time Bid Cap

- Positive price spikes (>\$250) observed in less than 2% of real-time intervals.
- Estimated Real Time Market cost impact to load of prices over \$250 is negligible (approx. \$3.1 million for Jan 15 – June 30) compared to total cost of serving load.
- Benefits of higher cap not captured in cost analysis - difficult to quantify but likely played a role in unprecedented generation availability during recent heat wave.
- DMM is not recommending any changes to bid cap at this time, but will continue to monitor.

2. Price Divergence and Real Time Imbalance Charge.

- High pre-dispatch exports at low prices (relative to 5-minute MCP) potentially costing \$52 million over three months.
- Trend may change during Summer - DMM will continue to monitor.

Real Time Energy Price Spikes



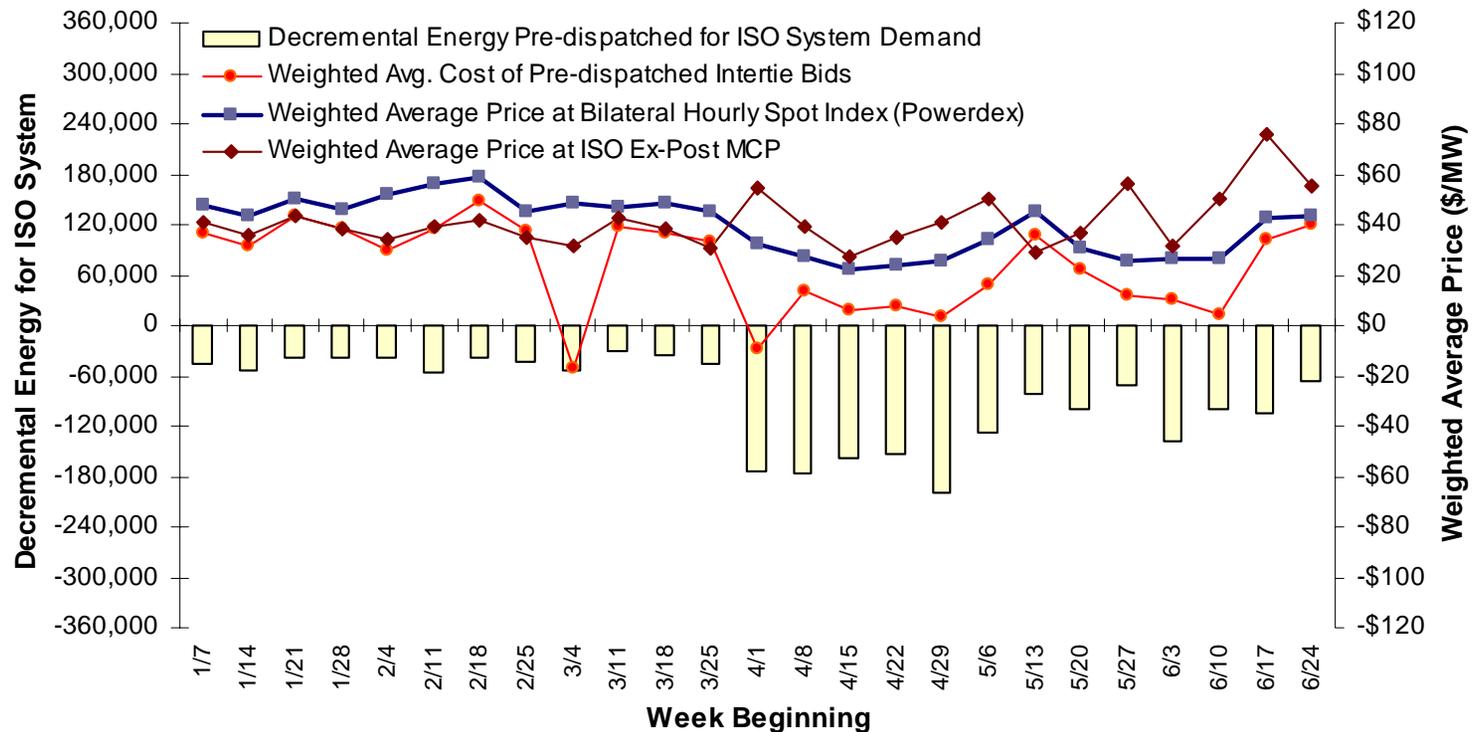
- Frequency of positive spikes increased in April through mid-June due to extreme hydro conditions.
- Frequency greatly reduced in second half of June and first half of July due to higher loads and more thermal generation on-line.
- Real time and bilateral prices have been moderate and relatively comparable since March.

Estimated Real Time Market Cost Impact of Price Spikes

	<u>Instructed Incremental Real Time Energy (IE)</u>			<u>Estimated Net Costs to LSEs</u>	
	Total Costs	Cost Due to MCP > \$250		Total	Percent of IE
Jan 15-Feb	\$17,981,000	\$382,000	+ 2.1%	\$357,000	+ 2.0%
March	\$12,421,000	\$303,000	+ 2.2%	\$49,000	+ .4%
April	\$26,489,000	\$1,254,000	+ 4.7%	\$787,000	+ 3.0%
May	\$21,227,000	\$1,512,000	+ 7.1%	\$694,000	+ 3.3%
June	\$20,438,000	\$2,000,000	+ 9.8%	\$1,193,000	+ 5.9%
Total	\$98,559,000	\$5,451,000	+ 5.5%	\$3,081,000	+ 3.1%

- **Cost analysis assumes only effect of raising bid cap was some 5-minute interval prices above \$250. Potential offsetting benefits of a higher bid cap not captured in this analysis, e.g.,**
 - Less under-scheduling
 - Additional supply bids
 - Lower level of generation forced outages during critical peak periods.
- **Adjusted for LSE own or controlled generation, the estimated net-cost impact for LSEs is \$3.1 million (3.1% of net cost for Instructed RT Energy).**

Pre-Dispatched Export Bid Volumes and Prices



- Large volumes of pre-dispatched exports of real-time energy (as-bid) at relatively low prices (compared to real-time MCP) creates energy revenue imbalance that is allocated to load.

Estimates of Potential Revenue Imbalance Charges from Price Divergence

	Approx. Predispatched Export Energy	Price Difference (As-Bid vs. MCP)	Potential Revenue Imbalance
4/1/2006	172,872	\$63.96	\$11,057,094
4/8/2006	175,618	\$25.19	\$4,423,274
4/15/2006	158,023	\$21.16	\$3,344,400
4/22/2006	154,262	\$26.96	\$4,158,303
4/29/2006	200,312	\$38.04	\$7,620,613
5/6/2006	127,335	\$34.66	\$4,413,536
5/13/2006	80,794	(\$6.73)	(\$543,744)
5/20/2006	99,539	\$14.27	\$1,420,701
5/27/2006	71,477	\$44.44	\$3,176,674
6/3/2006	138,532	\$21.21	\$2,938,316
6/10/2006	99,327	\$46.55	\$4,623,218
6/17/2006	104,849	\$41.82	\$4,384,292
6/24/2006	67,425	\$15.06	\$1,015,707
Total	1,650,365		\$52,032,383

- For three month period April – June, potential charges (to load) resulting from lower priced pre-dispatched exports (compared to real time price) is \$52 million.
- Trend may change as Summer progresses and pre-dispatch requirements shift away from export.